

***The City of Lynchburg
Review of Payroll***

***Utilities Division
April 7, 2005***



Prepared by the Office of Internal Audit

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Internal Audit Department
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Data for employee master files is entered to the New World Systems Payroll Module by staff in Human Resources. Payroll clerks enter employee hours worked and leave taken. Payroll is processed in the Financial Services Department.

The Office of Internal Audit conducts periodic audits of Payroll processing for individual departments across the City. These reviews include tests of controls over payroll processing and documentation.

This audit was performed as a regularly scheduled audit with the approval of the Audit Committee.

Review Objectives

The purpose of the review was to determine that:

- Payroll calculations are accurate and supported by adequate documentation;
- Personnel files in Human Resources support the departmental payroll calculation and include all legally required documents;
- Checks processed through payroll are for legitimate employees of the City;
- Access to the payroll system is adequately restricted to necessary personnel; and
- Procedures are in compliance with legal requirements, IRS regulations, and City policy and procedures as related to payroll

Scope of Work

We interviewed personnel in Utilities and reviewed system documentation to establish an understanding of payroll procedures. Payroll reports were tested for thirty-eight employees in Utilities and personnel files in Human Resources were reviewed to ensure that payroll deductions were authorized by employees and that files included all legally required documents. The period of review was 1/12/05 through 2/8/05.

The audit was conducted in accordance with professional internal auditing and generally accepted governmental auditing standards specified in the City's Internal Audit Charter and, accordingly, included such tests of records and other audit procedures as were considered necessary in the circumstances.

The Internal Audit Department is free from organizational impairments to independence in our reporting as defined by government auditing standards. We report directly to an audit committee and, administratively to the city manager and are organizationally outside the staff or line management function of the areas we audit.

Opinion On Internal Controls

The objectives of a system of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management authorization and are properly recorded.

Based on our review, we concluded that the system of internal controls provides reasonable assurance that assets are safeguarded and transactions were made in accordance with City policy.

Audit Conclusions

Based on the results of our review, we conclude that...

- The payroll calculations were accurate and supported by adequate documentation except as noted in the “Observations & Suggestions” section of this report.
- The personnel files in Human Resources supported the departmental payroll calculation and included legal documents required for payroll;
- The checks processed through payroll were for legitimate employees of the City;
- Access to the payroll system is adequately restricted to necessary personnel; and
- Procedures were in compliance with legal requirements, IRS regulations, and City policy and procedures as related to payroll.

Observations & Suggestions

I. Observations: Missing Documentation within Department

For one of the payrolls tested an employee’s paycheck was processed in the department at a different rate of pay than the rate used by Finance. The departmental payroll clerk was told that a pay increase had been approved for the employee; however, Finance records did not show the increase. The check was processed using the rate of pay in Finance. There was no documentation in the file to indicate the difference in the employee’s pay on the department records and the payroll report. Two

pay periods later this pay was approved and the employee was moved to the new rate of pay.

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